CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 16, 2004

H.R. 4520
American Jobs Creation Act of 2004

As ordered reported by the House Committee on Ways and Means on June 14, 2004

SUMMARY

H.R. 4520 would repeal the exclusion from taxation for a portion of income earned by U.S. exporters, reduce tax rates on certain corporate income, extend various expiring tax provisions, and make numerous other changes to tax law. In addition, H.R. 4520 would extend Internal Revenue Service (IRS) and customs user fees. The bill also would repeal the federal tobacco production quota program and provide direct payments through 2009 to both holders of tobacco quotas and tobacco growers. The provisions of the bill have various effective dates.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase federal revenues by about $1.5 billion in 2004 and decrease revenues by about $29.2 billion over the 2004-2009 period and $42.2 billion over the 2004-2014 period. CBO estimates that enacting the bill would increase direct spending by $45 million in 2004 and about $4.1 billion over the 2004-2009 period, and reduce direct spending by about $5.4 billion over the 2004-2014 period. Finally, CBO estimates that implementing the bill would increase discretionary spending by $43 million over the 2004-2014 period, assuming appropriation of the necessary sums.

JCT and CBO have determined that the provisions of H.R. 4520 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The provisions of the bill that would subject vaccines for hepatitis A and influenza to taxation would increase state spending for Medicaid by about $140 million over the 2004-2009 period.

JCT has determined that H.R. 4520 contains seven private-sector mandates as defined by UMRA. CBO has reviewed the non-tax provisions and determined that the extension of the customs user fees and the extension of provisions in the Mental Health Parity Act are

private-sector mandates as defined in UMRA. In aggregate, the costs of all the mandates in the bill would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation) in each of the first five years the mandates are in effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4520 is shown in the following table. The spending impact of the legislation falls within budget functions 300 (natural resources and environment), 350 (agriculture), 550 (health), 570 (Medicare), 750 (administration of justice) and 800 (general government).

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES											
Title I: Provisions Relating to Trade Compliance and Reduction in Corporate Income Tax Rates	0	-1,645	-1,697	-1,282	-2,267	-2,670	-2,509	-3,310	-3,533	-4,688	-5,282
Title II: Provisions Relating to Job Creation Tax Incentives for Manufacturers, Small Business, and Farmers	2,665	-1,757	-7,222	-8,226	-1,830	2,670	1,421	1,673	1,486	1,075	808
Title III: Provisions Relating to Tax Reform and Simplification for United States Businesses	-608	-262	-399	-925	-1,768	-2,523	-4,250	-4,440	-4,641	-4,845	-5,060
Title IV: Extension of Certain Expiring Provisions	-946	-4,962	-4,205	-1,269	-844	-517	-232	-179	-197	-246	-235
Title V: Deduction of State and Local General Sales Taxes	0	-2,208	-1,373	0	0	0	0	0	0	0	0
Title VI: Revenue Provisions	405	3,324	2,747	3,176	3,481	3,822	4,103	4,487	4,839	5,167	5,529
Title VIII: Trade Provisions	-4	-19	-21	-8	-3	-1	0	0	0	0	0
Estimated Revenues	1,512	-7,529	-12,170	-8,534	-3,231	781	-1,467	-1,769	-2,046	-3,537	-4,240

Continued

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING											
Payments in Lieu of Excise Tax Credits for Alcohol Fuels											
Estimated Budget Authority	0	105	114	116	117	119	121	38	0	0	0
Estimated Outlays	0	105	114	116	117	119	121	38	0	0	0
Expiration of Special Tax Treatment for Ethanol											
Estimated Budget Authority	0	0	0	0	0	0	0	19	32	54	66
Estimated Outlays	0	0	0	0	0	0	0	19	32	54	66
Cover Over of Tax on Distilled Spirits											
Estimated Budget Authority	35	115	18	0	0	0	0	0	0	0	0
Estimated Outlays	35	115	18	0	0	0	0	0	0	0	0
Spending of Conservation-Related Excise Taxes											
Estimated Budget Authority	0	111	114	122	126	131	135	137	141	144	148
Estimated Outlays	0	28	62	93	109	121	127	132	133	137	140
IRS Contracting for Debt Collection											
Estimated Budget Authority	0	0	19	50	45	40	37	37	37	37	37
Estimated Outlays	0	0	19	50	45	40	37	37	37	37	37
Taxation of Hepatitis A and Influenza Vaccines											
Estimated Budget Authority	10	56	54	56	58	59	59	60	62	63	63
Estimated Outlays	10	56	54	56	58	59	59	60	62	63	63
Extension of Customs User Fees											
Estimated Budget Authority	0	-784	-1,565	-1,656	-1,751	-1,853	-1,960	-2,074	-2,194	-2,321	-2,456
Estimated Outlays	0	-784	-1,565	-1,656	-1,751	-1,853	-1,960	-2,074	-2,194	-2,321	-2,456
Market Reform for Tobacco Growers											
Estimated Budget Authority	0	1,927	1,927	1,927	1,927	1,892	0	0	0	0	0
Estimated Outlays	0	1,927	1,927	1,927	1,927	1,892	0	0	0	0	0
Termination of No-Net-Cost Tobacco Price Support Program											
Estimated Budget Authority	0	500	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	500	0	0	0	0	0	0	0	0	0
Total Changes in Direct Spending											
Estimated Budget Authority	45	2,030	681	615	522	388	-1,608	-1,783	-1,922	-2,023	-2,143
Estimated Outlays	45	1,947	629	586	505	378	-1,616	-1,788	-1,930	-2,030	-2,150

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	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION											
Studies											
Estimated Authorization Level	0	2	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	2	0	0	0	0	0	0	0	0	0
Spending from IRS User Fees											
Estimated Authorization Level	0	3	3	4	4	4	4	4	5	5	5
Estimated Outlays	0	3	3	4	4	4	4	4	5	5	5
Total Changes in Discretionary Spending											
Authorization Level	0	5	3	4	4	4	4	4	5	5	5
Estimated Outlays	0	5	3	4	4	4	4	4	5	5	5

SOURCES: CBO and the Joint Committee on Taxation.

NOTE: Details may not sum to totals due to rounding.

BASIS OF ESTIMATE

This estimate assumes the bill would be enacted in the summer of 2004.

Revenues

With the exception of the provisions relating to mental health parity, IRS user fees, and customs duty suspensions, JCT provided all the revenue estimates for this legislation. CBO and JCT estimate that the provisions of H.R. 4520 would increase federal revenues by about $1.5 billion in 2004 and decrease revenues by about $29.2 billion over the 2004-2009 period and $42.2 billion over the 2004-2014 period.

Title I. This title would repeal the exclusion for a portion of income earned by U.S. exporters beginning in 2005, and would provide transition relief in the first two years. JCT estimates that doing so would increase federal revenues by about $16.8 billion over the 2005-2009 period and about $49.6 billion over the 2005-2014 period. Title I also would lower the tax rate on corporations for income from certain manufacturing and other activities, and for taxable income from nonmanufacturing activities below certain amounts. JCT estimates that those tax rate reductions would decrease governmental receipts by about $26.4 billion over the 2005-2009 period and $78.5 billion over the 2005-2014 period. On net, title I would reduce revenues by about $9.6 billion over the 2005-2009 period and by $28.9 billion over the 2005-2014 period.

Title II. The provisions of title II would make numerous changes to existing tax law relating primarily to domestic business activity. On net, JCT estimates that those provisions would increase governmental receipts by about $2.7 billion in 2004, and decrease receipts by about $13.7 billion over the 2004-2009 period and $7.2 billion over the 2004-2014 period. Those provisions include, but are not limited to:

- Extending for two years the increased expensing of fixed investments by small businesses;
- Altering depreciation rules for various types of property;
- Providing relief from the alternative minimum tax;
- Restructuring tax laws for alcohol fuels; and
- Temporarily reducing the effective rate of tax on certain dividends paid by foreign corporations.

One provision would repeal the existing exemptions from the gasoline tax for alcohol fuels and replace those exemptions with an excise tax credit worth the same amount. JCT estimates that the increased compliance from doing so would increase federal revenues by $113 million over the 2005-2009 period and $220 million over the 2005-2014 period if the excise tax credit for alcohol fuels were extended beyond the provision's 2010 expiration.

Budget law (the Balanced Budget and Emergency Deficit Control Act of 1985) requires CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. CBO's baseline includes permanent extension of the reduced rates of taxation on alcohol fuels beyond their expiration because they reduce amounts credited to the Highway Trust Fund (HTF). However, the excise tax credit for alcohol fuels, as established by the bill, would not reduce amounts credited to the HTF. Therefore, CBO and JCT do not assume the credit would be extended and estimate that repealing the existing exemptions from the gasoline tax rate for alcohol fuels would increase governmental receipts by an additional $5.9 billion between 2011 and 2014, after the new tax credit would expire.

Title III. The provisions of title III would makes changes to tax law relating to U.S. businesses with foreign operations. Roughly half of the effect on revenues would result from altering interest expense allocation rules beginning in 2009, which JCT estimates would reduce federal revenues by about $14.4 billion over the 2009-2014 period. The remaining provisions would reduce revenues by $608 million in 2004, about $5.6 billion over the 2004-2009 period, and about $15.3 billion over the 2004-2014 period.

Title IV. This title would temporarily extend numerous provisions set to expire under current law. Some of those provisions include the tax credit for research and experimentation expenses, the work opportunity and welfare-to-work tax credits, the treatment of nonrefundable personal credits under the individual alternative minimum tax, and parity in the application of certain limits to mental health. CBO and JCT estimate that those extensions would reduce federal revenues by $946 million in 2004, about $12.7 billion over the 2004-2009 period, and $13.8 billion over the 2004-2014 period.

Title V. Section 501 would allow taxpayers to elect to deduct state and local sales taxes in lieu of state and local income taxes. The provision would apply to tax years 2004 and 2005 and would reduce governmental receipts by an estimated $3.6 billion over fiscal years 2005 and 2006.

Title VI. All of the numerous provisions in title VI would increase revenues. CBO and JCT estimate that revenues would increase by $405 million in 2004, about $17.0 billion over the 2004-2009 period, and about $41.1 billion over the 2004-2014 period. Roughly half of the increase would come from reforming the tax treatment for leasing transactions with parties generally exempt from tax, which JCT estimates would result in additional revenues of about $19.6 billion between 2004 and 2014. Title VI also includes an extension of IRS user fees through September 30, 2014. Currently, the fees are set to expire on December 31, 2004. CBO estimates that this provision would increase revenues by $170 million over the 2005-2009 period and $396 million over the 2005-2014 period.

Title VII. Title VII would affect the Department of Agriculture's tobacco program and would have no effect on federal revenue collections.

Title VIII. Sections 801 and 802 would temporarily suspend the duties on certain ceiling fans and nuclear reactor vessel heads through December 31, 2006, and December 31, 2008, respectively. In addition, section 802 would extend the duty-free treatment of nuclear steam generators for two years beyond its current December 31, 2006, expiration date. CBO estimates that enacting those duty suspensions would reduce governmental receipts by $4 million in 2004 and $56 million over the 2004-2009 period.

Direct Spending

Providing Direct Payments in Lieu of Excise Credits for Alcohol Fuels. Title II would provide for payments to recipients of the tax credits who have insufficient tax liability to use them otherwise. CBO estimates that outlays would increase by $571 million over the 2005-2009 period and $730 million over the 2005-2011 period. Because these payments would replace the existing reduced tax rate on alcohol fuels, these amounts exactly equal the increase in revenues estimated for this provision.

Expiration of Special Tax Treatment for Ethanol. Replacing the gasoline tax exemption for alcohol fuels with an excise tax credit would result in increased spending for farm price and income support payments after 2010 because the former is assumed to continue after 2010, but the latter is assumed to expire. Because the alcohol in such fuels is primarily derived from corn, demand for corn rises and falls with the demand for ethanol. The higher after-tax price of alcohol fuels resulting from expiration of the tax credit in 2010 would slightly reduce demand for ethanol and corn prices relative to those projected in the CBO baseline. As a result, CBO estimates that federal spending for farm price and income support payments would increase by $171 million over the 2011-2014 period.

Cover Over of Tax on Distilled Spirits. Under current law, an excise tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. The U.S. Treasury pays the treasuries of Puerto Rico and the Virgin Islands $10.50 per proof gallon of rum imported into the U.S. from any country or those possessions. A higher payment rate of $13.25 expired on December 31, 2003. Under H.R. 4520, the governments of Puerto Rico and the Virgin Islands would receive payments of $13.25 per proof gallon for tax assessments made between January 1, 2004, and December 31, 2005. Those payments are recorded as outlays in the budget. Based on recent tax and payment data, CBO estimates that increasing the possessions' share of the excise tax would increase direct spending by $168 million over fiscal years 2004-2006.

Spending of Conservation-Related Excise Taxes. Title VI of the bill would eliminate a requirement in current law that a portion of fuel excise taxes used by motorboats and small engines be deposited in the general fund. Those amounts would instead by deposited into the Aquatic Resources Trust Fund (ARTF). The bill also would eliminate or reduce excise taxes on certain fishing and hunting products, including archery equipment, which are deposited into either the ARTF or the Federal Aid-Wildlife Fund. Amounts in the two funds are used primarily for grants to states for the conservation of wildlife, sport fish, and coastal wetlands. CBO estimates that the net effect of enacting these two provisions would be an increase in direct spending from those funds of $1.1 billion over the 2005-2014 period.

Installment Agreements for Tax Payments. Under current law, taxpayers can elect to pay their full tax liability through installments. Section 645 would allow the IRS to enter into agreements for the partial payment of tax liabilities. That change would result in more installment agreements and additional revenue collections. The IRS charges a fee of $43 for each installment agreement, which it can spend without further appropriation. CBO estimates that allowing installment agreements providing for the partial payment of tax liabilities would increase IRS collections of installment fees by about $1 million over the 2004-2006 period. Because the IRS has the authority to retain and spend such collections without further appropriation, the change would have no significant net budgetary impact.

IRS Contracting for Debt Collection. H.R. 4520 would allow the IRS to contract with private collection agencies (PCAs) to collect payments of tax liabilities. JCT estimates that this provision would increase revenues by about $1.4 billion over the 2006-2014 period. The IRS would be allowed to retain and spend up to 25 percent of the amount collected by the PCAs to pay for the services they provide. CBO estimates that allowing the IRS to retain and spend 25 percent of the amounts collected would increase direct spending by $339 million over the 2006-2014 period.

Taxation of Hepatitis A and Influenza Vaccines. Sections 688 and 689 would require buyers of hepatitis A and influenza vaccines to pay an excise tax on each dose purchased. Medicaid is a major purchaser of vaccines through the Vaccines for Children program, administered through the Centers for Disease Control and Prevention (CDC). Medicare is a major purchaser of the vaccines for the elderly. CBO estimates that Medicaid and Medicare pay for approximately half of the hepatitis A and influenza vaccines sold annually. Based on estimates provided by JCT, CBO expects that implementing the bill would cost the Medicaid and Medicare programs about $10 million in 2004 and $556 million over the 2004-2014 period. (Those amounts are reflected in the estimates of the revenues resulting from the bill.)

Receipts from the tax would go to the Vaccine Injury Compensation Fund (VICF), which is administered by the Health Resources and Services Administration (HRSA). The fund uses tax revenues to pay compensation to claimants injured by vaccines. Once a vaccine becomes taxable, injuries attributed to its use become compensable through this fund. Based on information provided by HRSA and CDC, we expect there would be few compensable claims related to the hepatitis A and influenza vaccines. CBO estimates that the provisions of H.R. 4520 would increase outlays from the VICF by $46 million over the 2005-2014 period. Thus, we estimate that outlays resulting from the vaccine provisions would total $10 million in 2004 and $602 million over the 2004-2014 period.

Extension of Customs User Fees. Under current law, customs user fees expire after March 1, 2005. H.R. 4520 would extend these fees through September 30, 2014. CBO estimates that this provision would increase offsetting receipts by about $18.6 billion over the 2005-2014 period.

Market Reform For Tobacco Growers. Title VII would repeal laws implemented by the Department of Agriculture (USDA) to control the supply and price of tobacco grown in the

U.S. by granting individuals rights (known as quotas) to produce and market specific quantities of tobacco. Under the bill, this system of control through quotas and acreage allotments would be replaced by a series of direct federal payments to domestic tobacco growers and owners of tobacco quotas. (Because those holding tobacco quotas to produce and market tobacco can lease that right to others, the quota owners and growers may be different individuals.)

The bill would provide a direct payment to individuals of $1.40 per pound of tobacco quota owned and $0.60 per pound of tobacco quota grown for each year over the 2005-2009 period. Based on information from USDA on the volume of tobacco quotas and the use of those quotas, CBO estimates payments under the bill would be $1,927 million a year. Because the bill would limit the new direct payments under this title to $9.6 billion, payments would have to be reduced slightly in 2009 to comply with this limitation.

In addition to the direct federal payments authorized by this title, CBO estimates that tobacco growers and buyers would be relieved of paying a federal assessment of about $500 million in 2005 due to the termination of USDA's No-Net-Cost Tobacco program. The No-Net-Cost Tobacco program is operated under current law to provide a support price (also known as a loan rate) to growers of the many varieties of domestic tobacco. This program is administered through the Commodity Credit Corporation (CCC) and is separate and in addition to the tobacco quota system discussed above. Support prices for the various tobacco varieties are set by a formula specified in current law, and USDA is charged with attempting to control the supply of tobacco through quotas so that the actual market price of tobacco is at or above the support price. In the event that USDA cannot manage supply to achieve the support price in the market, growers are guaranteed the support price by USDA. Any net cost incurred by USDA to maintain the support price, however, is offset by an assessment imposed on all tobacco growers and buyers. Thus, the price support program operates at no net cost to the federal government.

Under the bill, the CCC price support for tobacco would be effective for the 2004 crop, but not for future crops. CBO expects that after enactment of this bill the market price for domestic tobacco would drop precipitously because USDA's quota and acreage allotment systems would no longer restrict the supply of tobacco. We estimate the price support program would cost the CCC about $500 million in 2005 as more growers would accept the support price for tobacco and forfeit crops from 2004 and previous years to the government. Because the bill would terminate the No-Net-Cost Tobacco program for future years' crops, USDA would have no opportunity to collect assessments from tobacco producers and buyers to offset this cost. That loss of receipts to USDA would bring the total estimated cost of enacting this title to $10.1 billion over the 2005-2009 period.

Spending Subject to Appropriation

Studies. Section 606 would require the Treasury Department to complete studies on transfer pricing rules, income tax treaties, and corporate expatriation. Assuming the appropriations of the necessary amounts, CBO estimates that performing these studies would cost about $2 million in fiscal year 2005.

Extension of IRS User Fees. Section 690 would extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through September 30, 2014. The bill would authorize the IRS to retain and spend a portion of the fees collected, subject to appropriation. Based on the historical level of fees spent, CBO estimates that implementing this provision would cost $18 million over the 2005-2009 period and about $41 million over the 2005-2014 period, subject to the appropriation of the necessary amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT and CBO have determined that the provisions of H.R. 4520 contain no intergovernmental mandates as defined in UMRA. The provisions of the bill that would subject vaccines for hepatitis A and influenza to taxation would increase state spending for Medicaid by about $140 million over the 2004-2009 period.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT and CBO have determined that H.R. 4520 contains several private-sector mandates as defined in UMRA. In aggregate, the costs of those mandates would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation) in each of the first five years the mandates are in effect.

Tax Mandates

JCT has determined that the following tax provisions of H.R. 4520 contain private-sector mandates as defined in UMRA: (1) repealing the exclusion for extraterritorial income; (2) altering tax law relating to reportable transactions and tax shelters; (3) reforming the tax treatment for leasing transactions with parties that are generally exempt from tax; (4) taxing aviation-grade kerosene; (5) requiring registration of pipeline and vessel operators for exemption of bulk transfers and imposing a penalty for failure to display such registration;

(6) modifying the heavy vehicle use tax; and (7) modifying the charitable contribution rules for donations of patents and other intellectual property.

Other Mandates

CBO has determined that the non-tax provisions of the bill contain two private-sector mandates as defined in UMRA—an extension of customs user fees and an extension of provisions in the Mental Health Parity Act.

Customs User Fees. Section 691would extend through 2014 the customs user fees that are scheduled to expire after March 1, 2005. CBO estimates that the cost of the private-sector mandate in section 691 relative to the case where the mandate is allowed to expire would be more than $780 million in fiscal year 2005 and larger in later years.

Mental Health Parity. Section 420 would extend the provisions of the Mental Health Parity Act of 1996, which expires on December 31, 2004, through the end of calendar year 2005. That act prohibits group health plans that provide both medical and surgical benefits and mental health benefits from imposing aggregate lifetime limits or annual limits for coverage of mental health benefits that are different from those used for medical and surgical benefits. CBO estimates that the cost of the private-sector mandate in section 420 relative to the case where the mandate is allowed to expire would be $39 million in fiscal year 2005 and $41 million in fiscal year 2006.

PREVIOUS CBO ESTIMATES

On November 5, 2003, CBO transmitted a cost estimate for H.R. 2896, the American Jobs Creation Act of 2003, as ordered reported by the House Committee on Ways and Means on October 28, 2003. Many of the provisions in the two bills are different, and the assumed enactment dates differ as well. The estimated budgetary impact of the two bills reflects those differences.

On November 6, 2003, CBO transmitted a cost estimate for S. 1637, the Jumpstart Our Business Strength (JOBS) Act, as ordered reported by the Senate Committee on Finance on October 2, 2003. Again, many of the provisions in the two bills are different, and the assumed enactment dates differ as well. The estimated budgetary impact of the two bills reflects those differences.

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